Saskatchewan
Highways and
Transportation

Highways Revolving Fund

Financial Statements

Year Ended March 31, 1992

AUDITOR'S REPORT

To the Members of the Legislative Assembly
of Saskatchewan

I have audited the balance sheet of the Highways Revolving Fund as at March 31, 1992 and the statements of operations and accumulated operating surplus and financing activities and accumulated net expenditure for the year then ended. These financial statements are the responsibility of the Revolving Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 1992 and the results of its operation and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

W.K. Strelioff

Regina, Saskatchewan
June 18, 1992

W. K. Strelioff, C.A.
Provincial Auditor

HIGHWAYS REVOLVING FUND

BALANCE SHEET

As at March 31

	1992	1991
ASSETS		
Current:		
Accounts receivable (Note 4)	$ 1,240,903	$ 1,447,463
Construction work in progress	1,968,284	242,153
Inventories	2,972,482	3,345,028
Prepaid expenses	28,641	---
	6,210,310	5,034,644
Construction materials inventory (Note 6)	1,366,373	1,335,120
Construction, maintenance and other equipment (Note 5)	38,854,047	37,857,144
	40,220,420	39,192,264
	$46,430,730	$44,226,908
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	$ 363,143	$ 241,367
Unearned revenue	172,906	84,774
	536,049	326,141
Fund Equity:		
Accumulated net expenditure (Statement 3)	45,541,118	43,805,384
Accumulated operating surplus (Statement 2)	353,563	95,383
	45,894,681	43,900,767
	$46,430,730	$44,226,908

(See accompanying notes)

Statement 2

HIGHWAYS REVOLVING FUND

STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS

For the Year Ended March 31

	1992	1991
Revenue:		
Sales or gross revenue	$26,857,812	$28,736,210
Other revenue	2,082,499	2,544,379
(Loss) gain on sale of fixed assets	(9,805)	65,034
Total revenue	28,930,506	31,345,623
Expenses:		
Cost of sales	24,481,270	27,474,642
Other expenses	2,623,024	2,359,108
Total expenses	27,104,294	29,833,750
Segment margin (Note 7)	1,826,212	1,511,873
General expenses	1,568,032	1,427,576
Net income from operations	258,180	84,297
Accumulated operating surplus, beginning of year	95,383	11,086
Accumulated operating surplus, end of year - to statement 1	$ 353,563	$ 95,383

(See accompanying notes)

HIGHWAYS REVOLVING FUND

STATEMENT OF FINANCING ACTIVITIES AND ACCUMULATED NET EXPENDITURE

For the Year Ended March 31

	1992	1991
Financing requirements of the Revolving Fund		
Net capital acquisitions:		
Purchase of fixed assets	$ 4,893,594	$ 5,150,877
Proceeds received from sale of fixed assets	(298,458)	(421,263)
	4,595,136	4,729,614
Working capital changes:		
Increase (decrease) in accounts receivable	(206,560)	(355,687)
Increase (decrease) in construction work in progress	1,726,131	(1,056,300)
Increase (decrease) in prepaid expenses	28,641	---
Increase (decrease) in inventories	(341,293)	1,526,717
(Increase) decrease in accounts payable	(121,776)	169,089
(Increase) decrease in unearned revenue	(88,132)	262,052
	997,011	545,871
Total financing requirements	5,592,147	5,275,485
Less amounts financed by operations:		
Net income from operations	258,180	84,297
Items not affecting working capital		
- depreciation	3,588,428	3,461,604
- (gain)/loss on disposal of fixed assets	9,805	(65,034)
	3,856,413	3,480,867
Net expenditure	1,735,734	1,794,618
Accumulated net expenditure, beginning of year	43,805,384	42,010,766
Accumulated net expenditure, end of year - to Statement 1	$45,541,118	$43,805,384

(See accompanying notes)

HIGHWAYS REVOLVING FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 1992

1. Accounting Policies

a) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting.

b) Net Cash Expenditure (Recovery)

The net cash expenditure (recovery) is the cash flow from (to) the Consolidated Fund. It represents the total annual financing requirements (surpluses) resulting from net capital acquisitions, working capital changes and net cash flows from operations.

c) Accumulated Net Expenditure

The accumulated net expenditure of the Fund includes the following:

i) working capital advanced by the Minister of Finance as at March 31, 1982 to the Revolving Fund;

ii) the net cash expenditure (recovery) for each fiscal year thereafter; and

iii) the lower of net book value or fair market value of assets acquired (disposed of) at no charge from (to) another government agency.

d) Disposition of Accumulated Operating Surplus or Deficit

In accordance with Subsection 14(4) of The Department of Highways and Transportation Act, the Minister shall pay to the Consolidated Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Highways Revolving Fund shall be $1,000,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus (deficit) exceeds the maximum, then any surplus (deficit) in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to (from) the Consolidated Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the Department's appropriation in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur.

e) Inventories

Inventories are valued at the lower of original cost, as determined on a global moving average basis, and net realizable value.

f) **Construction and Maintenance Equipment**

Construction and maintenance equipment, including expenditures which renovate or modify the equipment and result in a corresponding increase in the useful life of the equipment, are capitalized and recorded at cost or as determined in Note 1(c)(iii).

g) **Depreciation**

i) **Construction and Maintenance Equipment**

Construction and maintenance equipment is depreciated on a unit of use basis (hours or kms.). The depreciation rate per unit of use for each item is calculated to allocate the capital cost of that item, less residual value, over the life expectancy of the equipment.

ii) **Other Equipment**

Salt storage bins are depreciated on a straight-line basis at a rate of 5% per year.

For all other equipment, depreciation is calculated as follows:

- Items costing $1,000 or more are depreciated on the straight-line basis at a rate of 10% per year.

- Items costing less than $1,000 are depreciated at a flat rate of $100 per year.

iii) **Saskatchewan Property Management Corporation Central Vehicle Agency Units**

Major additions or modifications made to motor vehicle units leased from the Saskatchewan Property Management Corporation are treated as capital cost additions. Depreciation is calculated on the capital cost additions for a unit, on a straight-line basis over the remaining term of the lease for that unit.

(iv) **Computer Equipment**

Computer equipment is depreciated on a straight-line basis at the rate of 25% per year.

h) **Equipment Rental Rates**

The rental rates charged by the Revolving Fund for use of its construction and maintenance equipment are calculated to return to the Revolving Fund by way of rentals, sufficient funds to recover the following Revolving Fund costs:

i) depreciation;

ii) repair and overhaul costs;

iii) operating costs of fuel, oil and license registration and insurance fees; and

iv) administration costs of the stores and repair depots and Revolving Fund office.

Each of the foregoing components of the rental rate is reviewed annually, revised as required, and approved by the Minister of Highways and Transportation.

i) Construction Revenue

The Revolving Fund uses the completed contract method to recognize construction revenue on custom and other work whereby revenues are recognized as projects are completed. Amounts received before projects are completed are reflected as unearned revenue.

j) Construction Work in Progress

Construction work in progress represents the actual cost of work performed on projects that are not completed. These costs will be recorded as expenditures when the corresponding revenues are recognized.

k) Surcharges

Surcharges levied by the Revolving Fund pursuant to Treasury Board directives are required to be returned to the Consolidated Fund. Accordingly, any such surcharges are recorded as a liability when invoiced.

2. Authority and Definition of Reporting Entity

The authority for this Revolving Fund was originally contained in Section 21 of The Highways Act and is continued under Section 14 of The Department of Highways and Transportation Act.

The purpose of the Revolving Fund is to provide equipment, materials and labour for certain departmental programs and for custom work projects to permit the equitable distribution of the cost of such services.

3. Authorized Financing

Subsection 14(10) of The Department of Highways and Transportation Act provides for a maximum amount of accumulated net expenditure which may at any time be outstanding to be set by order of the Lieutenant-Governor in Council. A maximum amount of $80,000,000 was established by Order-in-Council in April 1983.

4. Accounts Receivable

Accounts receivable include receivables from the Department of Highways and Transportation as follows:

	1992	1991
Operations division	$ 7,014	$316,031
Engineering division	73	2,946
Support services division	---	225
	$ 7,087	$319,202

5. **Construction, Maintenance and Other Equipment**

Details of this equipment are as follows:

	1992			1991
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment in service:				
Construction & maintenance equipment	$81,567,893	$43,073,518	$38,494,375	$37,393,055
Repair shop equipment	1,302,081	1,113,362	188,719	207,654
Office equipment	92,796	44,080	48,716	54,125
Computer equipment	330,901	208,664	122,237	202,310
Total	$83,293,671	$44,439,624	$38,854,047	$37,857,144

Depreciation has been provided for in the amount of $3,588,428 in the current year (1991 - $3,461,604).

6. **Construction Materials Inventory**

In 1991, the acquisition of an aggregate stockpile was included in the Revolving Fund's inventories reported under Current Assets. As this inventory will not be used in one year, the entire inventory has been retroactively reclassified as a non current asset.

7. **Segmented Information**

	Stores and Repair Depot	Equipment Fleet	Custom and Other Work	1992 Totals Before Eliminations	Elimination of Inter-Segment Transactions	1992 Total	1991 Total
Revenue:							
Sales or gross revenue	$12,667,499	$16,709,631	$ 4,393,321	$33,770,451	$ 6,912,639	$26,857,812	$28,736,211
Other revenue	3,498,341	—	—	3,498,341	1,415,842	2,082,499	2,544,378
Gain on sale of fixed assets	—	(9,805)	—	(9,805)	—	(9,805)	65,034
Total revenue	16,165,840	16,699,826	4,393,321	37,258,987	8,328,481	28,930,506	31,345,623
Expenses:							
Cost of sales	12,667,499	15,508,050	3,818,621	31,994,170	7,512,900	24,481,270	27,474,642
Other operating expenses	3,321,549	39,143	77,913	3,438,605	815,581	2,623,024	2,359,108
Total operating expenses	15,989,048	15,547,193	3,896,534	35,432,775	8,328,481	27,104,294	29,833,750
Segment margin	$ 176,792	$ 1,152,633	$ 496,787	$ 1,826,212	$ —	$ 1,826,212	$ 1,511,873

A substantial portion of the sales of the Stores and Repair Depot represents internal charges to the Equipment Fleet Operation for the repair of rental equipment. These charges are reflected as direct expenses of the Equipment Fleet Operation and have been eliminated in the statement of operations and accumulated operating surplus. Other eliminations have also been made with respect to internal sales of materials and internal rental charges.

8. Related Party Transactions

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing, field service and certain administrative costs. These costs have been absorbed by various departmental appropriations and therefore, no provision for such costs is reflected in these financial statements.

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Revolving Fund is related.

9. Comparative Information

Certain 1991 balances have been reclassified to conform with the current year's presentation.